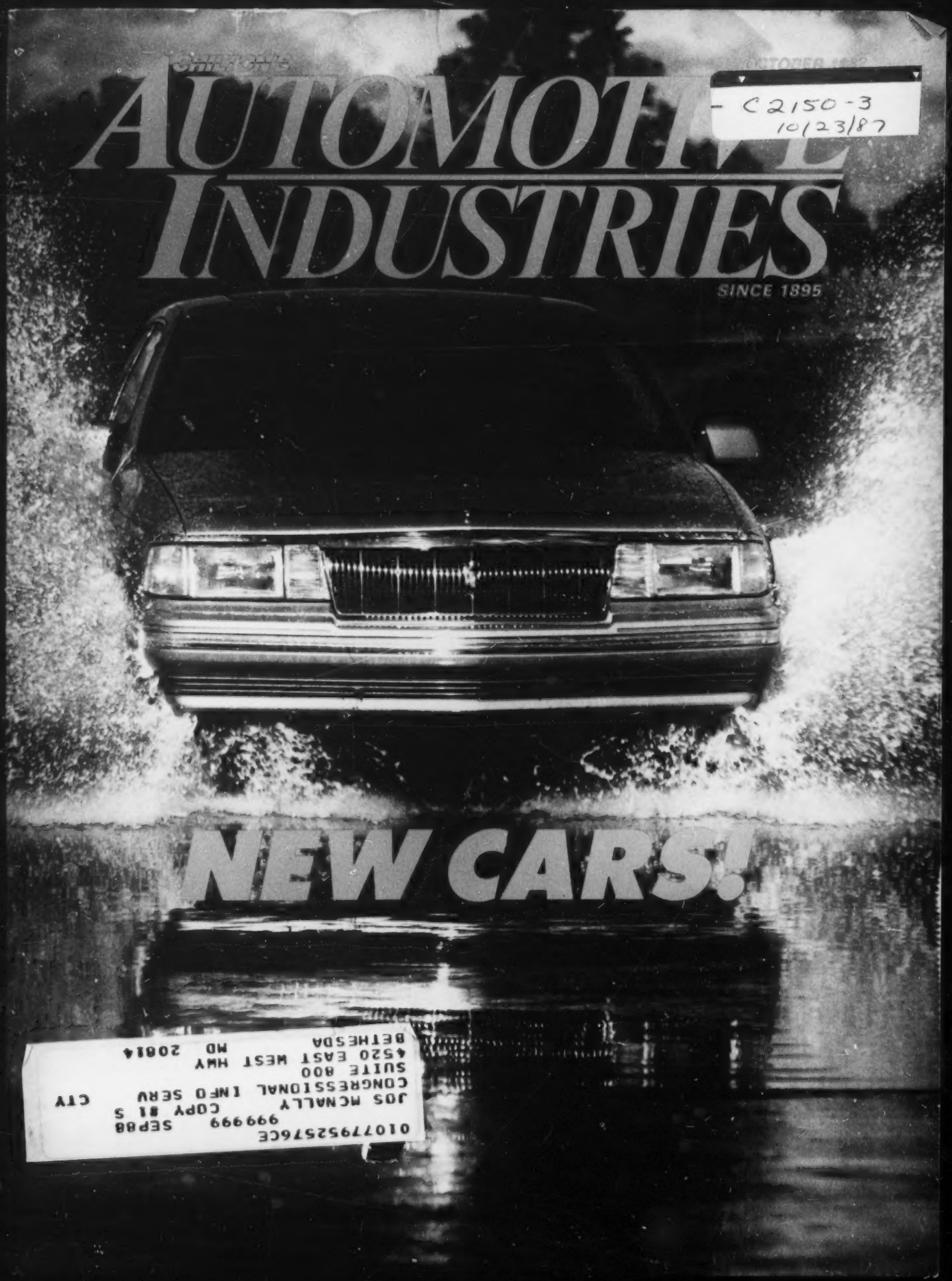

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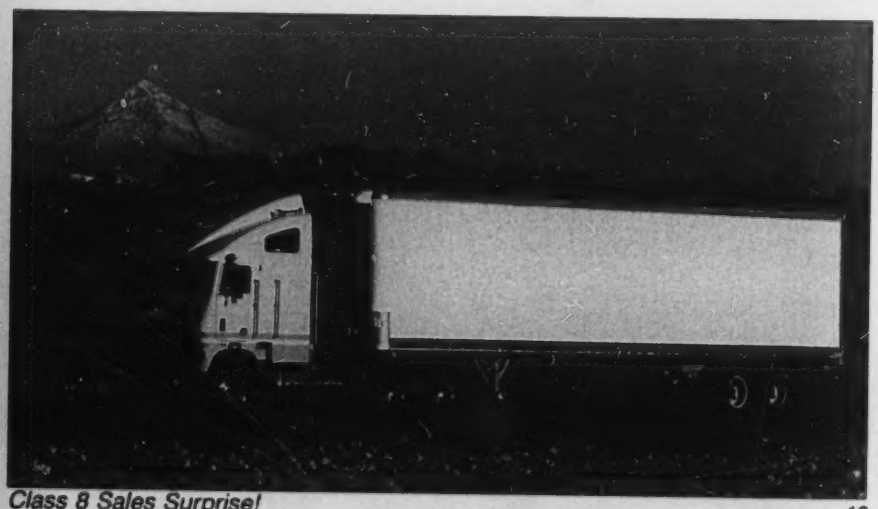

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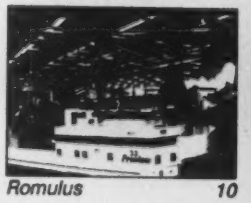

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NEXT ISSUE

In December, T&OHlooks at the rebounding ag scene.

Farm Outlook: Recovery At Hand!

by John Stark

A seven-year plunge in North American farm machinery business has hit rock bottom.

Recovery is finally at hand!

The forecast of better days ahead sounds like another false start to firms hemorrhaging at the bottom line. However, farm machinery producers who pay real close attention to US and Canadian movements in the used and new machinery markets have a front row seat in the current recovery now under way in the farm business.

Let's ignore US farm acreage plantings, dairy farm activity, note cash and farm income, exports, total farm debt, real estate values and debt-to-equity ratios. Instead, let's focus on the real issue—actual buying of farm tractors and self-propelled combines.

Sales of used compact (below 40-hp) and dairy-type (40- to 99-hp two-wheel-drive) farm tractors have been on the rebound since the fall of 1986. It took five to six months of steady decline in dealer stocks of the used tractors, *via* higher used tractor sales, to drive up the value of remaining good, used tractors still in inventory.

Hence, used tractor values have been rising strongly since April 1987. The value of good, used dairy-type tractors has soared more than 33% since last spring. Three to six months of steady rises in used tractor values are needed before a peak occurs.

Retail turnover of new dairy-type farm tractors started to turn around in the middle of this past summer.

Yet, farm machinery business normally doesn't recover all at once. The rebound occurs in stages—one industry segment at a time—and is largely affected by a key business fundamental known as elasticity of demand.

John Stark is editor and publisher of Stark's Off-Highway Ledger.

Under the current scenario, new dairy-type farm tractors are the first vehicles to register higher retail sales at dealer outlets due to runup of used tractor values. Two-wheel-drive (2wd) tractors of 100-hp or more have seen their used values rise since June 1987. Widespread turnaround in new tractor sales should occur by early 1988.

However, retail sales of these new, higher horsepower 2wd tractors have been climbing since late summer 1987.

Industry insiders link gains in new, higher horsepower 2wd tractors to a widely successful stock liquidation program at JI Case. Case is attempting to clear out inventories of new but older lines of tractors, to make room on dealer lots for four new models of 130-195 PTO-hp, 7100-Series "Magnum" machines. Magnum tractors started rolling off the assembly line in Racine, WI during mid-October.

Subsequently, genuine turnaround in the over-100-hp 2wd new tractor business isn't anticipated until February-March 1988.

Compact tractors, machines primarily imported from Japan, have seen their used tractor values rise since April 1987. Yet, the rebound in used vehicle values hasn't been as dramatic as that of dairy-type farm tractors for one simple reason: A lot of compact tractors were imported to North America and stocked at dealer outlets under an older, more restrictive yen-to-the-dollar pricing structure. It should take another six to eight months before newer stocks of the same vehicles favorably work their way onto the retail scene.

Since mid-summer, used combine values have been on the rebound. Certain manufacturers have been detected shifting used combines from low- to high-value areas of the US—a first sign that inavailability of used machines will soon lead to improved sales for the new machines.

But looming cutbacks in federal pricing supports by the Canadian government is expected to toss a wet towel on demand for combines in Canada during the remainder of this year and for all of next year. The extent of falling vehicle demand in Canada should offset any gains that occur in the US. So, a turnaround in new combine sales might not materialize until late 1988 or early 1989.

Many manufacturers have given up hope for rebound in the four-wheel-drive (4wd) tractor business. Used tractor sales remain sluggish. Used tractor values are weak and new tractor turnover continues to disappoint industry diehards.

But don't get stuck in a furrow over 4wds. Two-wheel-drive tractors are where the action is.

Gentlemen, start your engines... ■

NORTH AMERICAN FARM MACHINERY SALES OUTLOOK

	1988	1987	1986	1985	1984	1983	1982	1981	1980
Below 40 hp	69,800	68,500	65,790	60,620	54,495	48,310	44,995	51,555	49,815
40-99 hp	45,800	39,795	40,195	46,265	46,935	44,925	49,675	61,815	71,450
100 hp & over	19,400	15,525	19,405	22,670	29,090	33,775	35,595	51,695	58,505
All 4WDs	2,900	3,200	3,650	5,580	6,325	7,555	9,975	14,050	14,500
Ttl. Tractors	137,900	127,020	129,040	135,140	136,845	134,565	140,240	179,115	194,270
Combines	9,200	9,695	10,770	11,260	14,220	15,680	19,750	31,890	29,150
Grand Total	147,100	136,715	139,810	146,400	151,065	150,245	159,990	211,005	223,420

SURPRISE OF THE YEAR!

Class 8 sales are topping all expectations.

by Douglas Williams

John Rock's a pretty typical industry executive when it comes to predicting 1987 Class 8 truck sales—and then being wrong about it. "I guess I've been sort of a gloom and doomer on the industry," says the head of GMC truck operations, who last January predicted industry sales of 112,000 units. Sales for the year will easily top that by 20%-plus.

"I really didn't think if you looked at the economy and the statistics and forecast and projections that it would generate the kind of buying we've seen. It's good to be wrong" in that direction, Rock says.

Peter Rupp, the outspoken head of Daimler-Benz's Freightliner subsidiary, had expected 1987 to be in the range of 120,000 Class 8 trucks. Rupp, says he thinks 1987 will end up with Class 8 sales of about 129,000-130,000.

> There's just a lot more going on in the US than we had thought in trying to become competitive. I think that has generated a lot of specialized vehicle useage.

Rupp echoes the industry's general prediction that tougher truck engine emissions limits would pull demand ahead, but instead the standards were eased. Then too, the average age of big trucks stands at 7.9 years; Rupp notes that a lot of people replaced their older trucks in '87 because new ones are so much more efficient.

Why The Boom?

Ken Smith, head of heavy truck operations at Ford, says the Class 8 business will hit 125,000 "and possibly 130,000" for the present year. Smith comments that the business has surprised a lot of people.

Still, the question nags: Where did all the big truck sales come from? John Merrifield, general sales manager of heavy trucks at Ford cites four reasons:

- The general aging of the nation's truck fleet.
- Lower prices related to excess capacity.
- A wave of new products that is stimulating buyer interest. Included here are much more economical powertrains, improved aerodynamics and boosts in driver comfort.
- Some people attempting to find a tax advantage in buying new trucks. That's perplexing, because most truck industry executives don't see any obvious tax advantage with the new laws.

A fifth reason could be added: The significant recent reduction of supply of used Class 8 vehicles.

To GM's Rock, the reason for the Class 8 sales boom is more basic: it's because America is simply getting more efficient and productive. "I give most of the credit to deregulation and the fact there is so much going on in the cost reduction process for American industry. You're really getting into specialized uses," he says, adding that there's demand in each one of those specialties.

Rock talks about the brand-new GM pickup truck plant in Indiana when he wants to illustrate America generating unexpected demand for big trucks by getting more efficient overall. "I went down to the Ft. Wayne truck plant for a tour and they only have 120 units of inventory, with not one railroad siding even on the property.

"There's just a lot more going on in the US than we had thought in trying to become competitive," Rock says. "I think that has generated a lot of specialized vehicle useage." He guesses, for example, that "70% to 80% of medium and heavy trucks are probably ordered for a specific usage.

"High inventories of capital goods is one of the things American industry has taken out of the business equation," Rock offers. "You take a look at all of the things you've got to do to reduce your costs. At General Motors we have taken a real percentage out of our inventory that's in the billions of dollars. I've got to believe that everybody's doing it, from the customer to the dealer to the whole supply line," Rock says.

SURPRISE!

1987 Class 8 Sales Blitz

	1986	*1987*
Navistar	26,300	28,000
PACCAR	20,500	24,000
Freightliner	17,500	22,100
Mack	17,250	20,000
Volvo/White	11,350	14,700
Ford	11,300	12,400
GMC	7,750	7,600
Others	1,000	1,200
TOTAL	113,000	130,000

If there's substantial surprise about Class 8 truck sales being up—and there certainly is—one other item's sure: There may be no agreement about why, but nobody is complaining. ■